

AGENDA ITEM

BUDGET & ECONOMIC DEVELOPMENT COMMITTEE

MEETING OF November 25, 2008

What is requested: Council authorization to implement the proposed changes to Community Development's Investor Rehab Loan Program

Background: On November 10, 2008, Budget & Economic Committee members considered Community Development staff's request to authorize proposed changes to the Investor Rehab Loan Program. Councilman Crowder expressed concerns regarding applicant criteria/eligibility and enforcement/monitoring. It was agreed to hold the item until the November 25th meeting to allow staff to provide some written criteria on trigger points, previous violations, subsequent violations, eligibility etc. Staff offers the following:

Additional Information:

- Criteria/Eligibility: Staff proposes that as part of the application evaluation process, Community Development will work with the Inspections Department to review all properties owned by the applicant to ensure that applicant has no outstanding code cases on any other properties owned or other cases that resulted in demolition due to noncompliance. Furthermore, staff proposes that all nonlocal property owners be required to contract with a local property manager in order to be considered for funding.
- Enforcement/Monitoring:

There is a "waste provision" in the Deed of Trusts we use which states: "The Grantor (homeowner) covenants that he will keep the Premises herein conveyed in as good order, repair, and condition as they are now, reasonable wear and tear expected, and will comply with all governmental requirements respecting the Premises or their use, and that he will not commit or permit any waste." This provision gives City of Raleigh, as beneficiary of the Deed of Trust, the right to foreclose if the property falls into disrepair.

If needed, Staff will work with CD attorney to develop stronger language to incorporate into Loan documents that ensure that the investor maintains property up to CD standards; otherwise loan will be due and payable. Events of default listed in the loan documents are not maintaining the property, not renting to low-income tenants and not renting the unit at an affordable rent. These events of default will enable the City to call the loan if not met. Staff will also assure that they have the ability to monitor the properties with reasonable notice to enforce these requirements.

One possibility is to partner with our current loan servicer, AmeriNational Community Services Inc (ACS). Community Development contracts with ACS to provide loan portfolio management services, including delinquency and default follow-up management. For an additional fee, ACS can provide Property Conditions Profile:

- a. ACS will perform a site visit to each owner's property to determine the outer condition of the dwelling and the condition of any detached structures and grounds. Two photos will be taken to document the condition of the property. NOTE: ACS will not, at any time, enter upon the owner's private property.
- b. Property profiles will rate (good, fair, poor) the condition of each of the following: roof, windows, doors, siding, foundation, porches, garage, other detached buildings, yard, walkways, driveway, landscaping, trees, fences, and visible refuse containers.
- c. If the dwelling appears vacant or abandoned, it will be noted in the report.
- d. Property profiles may be ordered by the City with any frequency desired, e.g. once every two years, once every three years, etc.

The proposed eligibility requirements are re-stated on the following page.

Eligibility Requirements

	CURRENT PROGRAM	PROPOSED PROGRAM	REASON FOR CHANGE
Location of Property	Limited to redevelopment, conservation and low-income census tracts	Citywide	to support PROP, which is a Citywide initiative
Borrower eligibility	Satisfactory credit	Satisfactory credit as evidenced by a credit report; sufficient disposable (discretionary) income to cover monthly debt service or liquid assets sufficient to cover 6 months worth of monthly debt service; absentee landlords must provide contract with local property management company; must participate in Landlord Training; members of LLC must personally guarantee the loan	to ensure the investor has sufficient discretionary income and/or liquid assets in the event of loss of rental income due to vacancy or renter default (this is the #1 reason given by existing investor borrowers for default); staff experience with absentee landlords is that they do not maintain the property and renters either quit paying or move out
Eligible Costs	Acquisition and rehabilitation	Rehabilitation only	to maximize limited resources
Down Payment	\$0 if the appraised value is 5% more than the loan amount	5% of the loan amount	Lower default rate on loans provided to borrowers who have a vested interest in the property
Lien position	First or subordinate with conditions	1 st or 2 nd	Clarifying "subordinate" to mean 2 nd position and no less; lower lien position = higher risk
Maximum subsidy	Based upon number of bedrooms; up to \$185,686 for a 4 bedroom unit	Max loan cannot exceed \$45,000	Amount should be sufficient to correct code violations and repair/replace major systems
Property standards	Written CD standards	Housing Quality Standards (Section 8) – lower than current standards	
All other conditions and exceptions remain the same			